SCALE
physician group

Whitepaper

# Healthcare is Not Broken in America

February 26, 2020

**Roy Bejarano**
*Co-Founder & CEO*
*SCALE Physician Group*
*roy@scale-pg.com*

**Ryan Hagerbrant**
*Columbia Business School*
*'21 MBA Candidate &*
*Intern at SCALE*
*rhagerbrant@scale-pg.com*

*This article is the second in the SCALE Idea Lab series on the topic of America's Healthcare – Macro Views. In short, do we fully appreciate the many ways to evaluate how we are doing as an industry, as a community?*

*In our first article, we addressed healthcare's "out of control costs" with revealing facts and counterpoints that suggest we are far less out of control than what we are regularly led to believe.*

*In this second article, we break down a key reason behind the higher price we pay for American healthcare: exceptional care that surpasses what is available anywhere else in the world.*

## Our current view is that healthcare is not broken in America. It needs further improving.

Nonetheless, and as we are all well aware, broadly held public opinion and our always fair and balanced media industry are fixated on headlines offering a single, opposing message: our American healthcare system is irrefutably BROKEN and simply beyond repair, short of a total redesign and takeover, ideally by our government.

Consider a few of these recent headlines:

> "CDC Data Show U.S. Life Expectancy Continues to Decline"[1]
>
> "Healthcare Spending Near 20 Percent of GDP, More than Any Other Country"[2]
>
> "A Huge Medical Bill Inflicts Pain Long After the Emergency Appendectomy"[3]
>
> "Why the US Still Trails Many Wealthy Nations in Access to Care"[4]

This representative sample of headings suggests, through a narrowly selected and poorly analyzed collection of evidence, that our country's healthcare system is in aggregate:

1. Yielding poor outcomes
2. Overpriced
3. Assigning unfair financial burden to individual patients
4. Limited access and unfairly skewed towards the wealthy

---

1 https://www.aafp.org/news/health-of-the-public/20181210lifeexpectdrop.html

2 https://www.healthcarefinancenews.com/news/healthcare-spending-near-20-percent-gdp-more-any-other-country

3 https://www.npr.org/sections/health-shots/2020/01/29/800870904/a-41-212-surgery-bill-compounded-a-patients-appendicitis-pain

4 nytimes.com/2016/10/25/upshot/why-the-us-still-trails-many-wealthy-nations-in-access-to-care.html

With statistics and stories about mistreated patients, exploitative physicians, hospitals, insurance companies, cluttering our phones, laptops, and televisions, the American public is regularly confronted by this single negative message, like a regular drumbeat of negativity. And if everyone is saying it, it must be true. Our country's healthcare is worse than everyone else's for some of the above reasons stated. If only we could replicate what they have up there in Canada, or perhaps down south in Mexico? If only.

Yes, despite all of these irrefutable widely held facts, we are not so sure our current healthcare system is broken. It needs improvement, that is beyond doubt, but it remains one of if not singularly the best healthcare system in the world. Are we crazy for saying that?

For starters, "needs improving" does not sound anywhere near as dire as "broken". "Needs improving" doesn't get Americans out to vote, or to read that latest blog? Don't get me wrong; there are things that as a country we do relatively poorly like bridges, tunnels, airports, and public schools. But healthcare factually is not one of them.

## Yielding poor outcomes

The nation's decreasing life expectancy rate is a consequence of several broad societal ills.

The nation's decreasing American life expectancy rate we've experienced over the past four years, until 2019 (when it finally went up slightly), is a problem. It is not on its own an indictment of our healthcare system but rather a consequence of several much broader societal ills.

Consider a recent headline from January 30, 2020: *Life Expectancy Went Up While Drug Overdoses Fell*.[5] As the title suggests, the primary cause behind a recent change in American life expectancy was a decrease in opioid usage and related suicides. There is little doubt that some actors in the pharmaceutical and health IT industries are responsible for opioids flooding the market over the past five years. And, increasing use of social media and subsequently increasing rates in anxiety and depression in young adults are correlated with the 30% increase in suicide rates in all age groups between 2000 and 2016.[6]

These pharma companies are facing litigation for their part in the opioid crisis.[7] But, these are primarily four companies; the whole industry is not under indictment. Other pharmaceutical companies continue to invest unmatched levels to deliver breakthrough treatments to patients worldwide. It's always therefore worth remembering the scale of the industry, the number of companies, treatments, patients, providers involved. An example of some of the positive work performed by the industry to counter-balance opioid abuse would be rapidly declining levels in cancer related deaths.[8]

In a macro view, life expectancy can be interpreted in many different ways. It is broad and with a large, heterogeneous population like we have in the United States, it is misleading. The life expectancy of an American in the top income quartile is 20 years higher than the life expectancy of an American in the lowest income quartile.[9] That gap, as seen in the graph below, is wide and documented in medical research. It must be addressed. The fact is that the 175 million Americans with commercial insurance are receiving great medical care and having better health outcomes as a result.[10] They have insurance, are using it, and are seeing the dividends in the form of higher life expectancy.

5 https://www.politico.com/newsletters/politico-pulse/2020/01/30/life-expectancy-went-up-while-drug-overdoses-fell-784866

6 https://jamanetwork.com/journals/jama/fullarticle/2735809

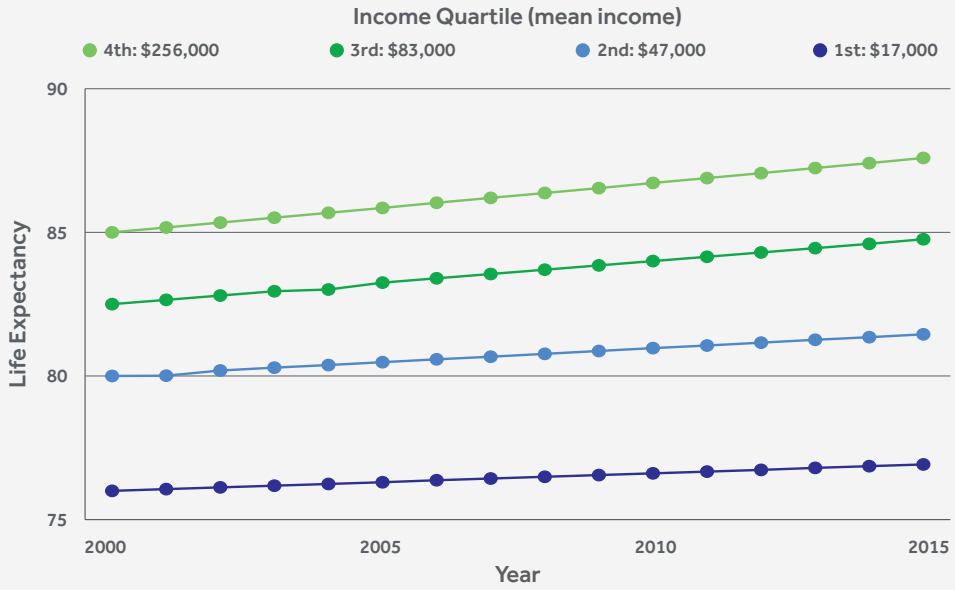
7 https://www.npr.org/2019/08/28/755007841/several-big-drug-companies-considering-massive-settlements-to-resolve-opioid-sui

8 https://www.cancer.org/latest-news/facts-and-figures-2019.html

9 https://jamanetwork.com/journals/jama/article-abstract/2513561?redirect=true

10 https://www.kff.org/other/state-indicator/total-population/?dataView=1&currentTimeframe=0&sortModel=%7B%22colId%22:%22Location%22,%22sort%22:%22asc%22%7D

## Life Expectancy by Income Quartile by Year




Let's explore this deeper, in the context of diabetes. 9.4% of the U.S. population is living with diabetes. People with type 1 diabetes, on average, have shorter life expectancy by about 20 years. People with type 2 diabetes, on average, have shorter life expectancy by about 10 years.[11]

More primary care visits are associated with better control of diabetes.[12] We have in America clinical protocols and novel technologies to manage diabetes. Yet, as evidenced by a simple but conclusive study in a Texas county (see results below)[13] the insured visit their primary care provider twice as much as the uninsured who frequently and mistakenly visit ER rooms for all medical necessities.

| Income level & Insurance Status | Total Population | Visits per Person | Total Visits |
|---|---|---|---|
| Income <200% FPL | 1,681,874 | 1.87 | 3,145,104 |
| Income <200% FPL & Uninsured | 731,395 | 0.91 | 665,569 |
| Income <200% FPL & Insured | 950,479 | 2.65 | 2,518,769 |

Our focus should be shifted away from equating "low life expectancy" with poor health outcomes for the entire American population. And, we should shift away from the generality of using terms like "health outcomes". Many factors explain why a significant portion of our American population is not living as long as the rest of the American population. Rather than label American healthcare broken – let's call it excellent for many but in need of great improvement for others. It's a longer description, perhaps not the catchiest political slogan, but it's a lot more accurate.

11 https://www.diabetes.co.uk/diabetes-life-expectancy.html

12 *Morrison F, Shubina M, Turchin A. Encounter frequency and serum glucose level, blood pressure, and cholesterol level control in patients with diabetes mellitus. Arch Intern Med 2011; 171: 1542–50.*

13 https://www.researchgate.net/publication/225072898_Health_Reform_and_Primary_Care_Capacity_Evidence_from_HoustonHarris_County_Texas

## Overpriced

Still, visiting the doctor is too expensive in all cases. Yes, healthcare is expensive, but it is important to understand why – and whether it is affecting the quality of care. Then, we can make an educated determination as to whether it is "too" expensive for what the American people are receiving back. The answer is a more confusing "it depends."

In our first article, we discussed how U.S. healthcare consumption expenditure per capita has never grown more slowly than it has during the current decade, in which the growth rate has been nearly in-line with U.S. GDP growth per capita, according to CMS. U.S. healthcare has been around 17.8% of GDP for quite a while, not really growing, not shrinking.

The cumulative growth in overall healthcare prices from 2005 to 2018 was 29 percent, but hospital prices increased 36 percent while prices paid for physician and clinical services grew 18 percent.[14] This seems like a small difference, prices went up everywhere. But on an annual net basis one group, the hospital group driving price increases in healthcare at 2x the rate of another group, the physician group is a very big deal.

One reason is that hospital health system consolidation has increased in recent years, in parallel with hospital price increases.[15] Correlation between this activity and prices has been established in certain states, like California.[16] With market control, health systems can demand higher prices. Insurers are paying out more as a result and thus passing costs to patients. In 2000, private insurers in the U.S. paid about 10% more for health care services than public insurers did; by 2017, they are estimated to have paid 50% more.[17]

In medical settings (as is the case in most industries) consumers equate price with quality.

And, that extra hospital revenue is partly going into marketing. Have you too noticed all of the highway billboards advertising hospitals? Large health systems are creating brands, and it is working. People pay for brand-names, for fashion, drugs, and health systems alike. In medical settings – as is the case in most industries – consumers equate price with quality.[18] We are not saying that the quality of care in smaller practices is poorer than it is in large hospitals. In fact, the opposite may be true.[19]

And, most importantly, we are also saying that hospital cost implies neither better nor worse quality care.[20] The media focuses on how increasing prices is not equating to better quality. That is a very difficult statement to support. In many fields such as cancer we have seen incredible increases in quality and outcomes. One thing is certain, pointing to life expectancy on its own, or a basket of pre-selected medical outcomes is not a conclusive argument.

Also, prices remain high albeit increasingly transparent and subject to therefore more competition. But not everyone is paying directly for them (more to come on that in the next section). If you have insurance, you only pay out-of-pocket price and not the full price. There is a reason why the President, in his 2020 State of the Union Address, said 180 million people do not want to let go of their private insurance. It shields them from the full price that we pay for the often great care we receive.

How does America compare to other countries? We as individuals are actually not paying much as individuals. According to the World Health Organization, the United States had an 11% rate of out-of-pocket spending as a percentage of total national health spending and a 2.6% rate as a percentage of household consumption in 2016.[21] Compared to other nations, as seen in a sample of the list below, we are not paying that much.

14 *https://www.americanactionforum.org/research/hospital-markets-and-the-effects-of-consolidation/#ixzz6DDJ6GO1Q*

15 *https://www.healthaffairs.org/do/10.1377/hblog20191122.345861/full/*

16 *https://www.healthaffairs.org/doi/10.1377/hlthaff.2018.0472*

17 *https://www.ncsl.org/research/health/health-insurance-premiums.aspx*

18 *https://www.gsb.stanford.edu/insights/behavioral-impact-higher-price*

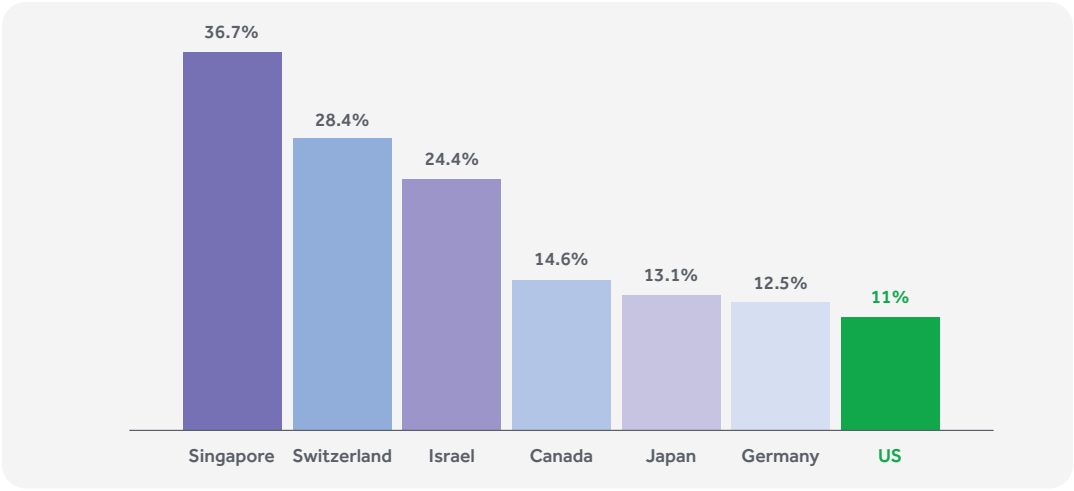
19 *https://www.medscape.com/features/content/6006322*

20 *https://www.ncbi.nlm.nih.gov/pmc/articles/PMC4863949/*

21 *https://data.worldbank.org/indicator/SH.XPD.OOPC.CH.ZS*

## Out-of-Pocket Health Expenditure

Percentage of Total Health Expenditure



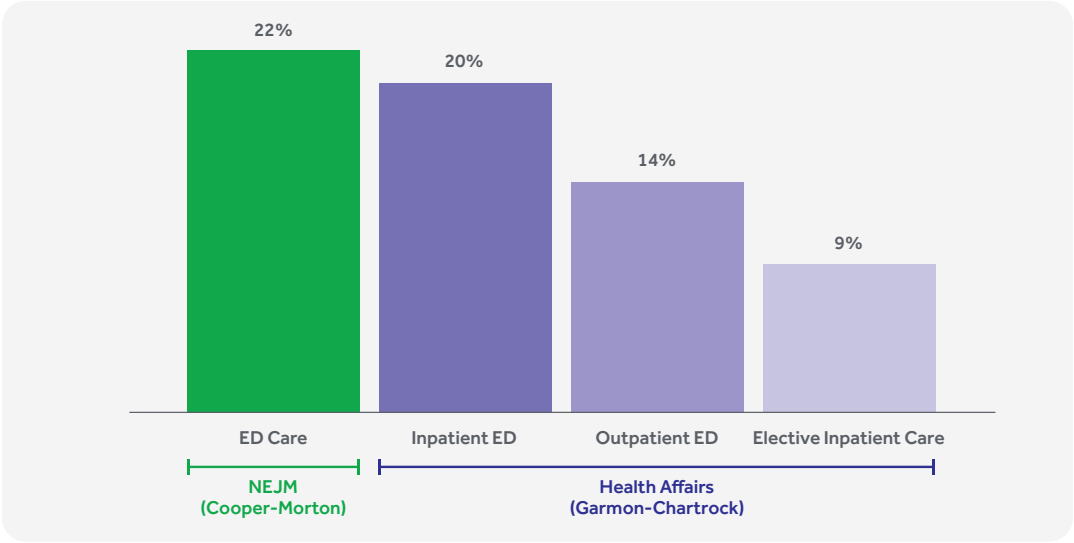

## Assigning unfair financial burden to individual patients

Surprise medical bills! This is another instance where patients are blindsided by the cost of insurance companies and health systems negotiating prices where patients bear (part of) the cost.[22] In this instance, patients are paying the full price of their care. It is like a world without insurance.

## Percentage of Care Likely Leading to Surprise Medical Bill

Percentage of Visits Involving an OON Provider

*Note: Studies utilize different datasets*




But, the mechanics of how "surprise bills", also known as out-of-network claims, occur during patient care are equally as important. Basically, it comes down to staffing. Many health systems will, unintentionally or not, utilize part-time providers who are not in-network with the patient's insurance. And, as seen above, it happens mainly in areas with high patient throughput, like emergency departments.

Outside of medical debt from surprise medical bills preventing people from seeking additional care, it cannot be established that this form of physician staffing affects the quality of patient care. It is simply a byproduct of the insurance industry and the way billing works. It is a bipartisan issue and should be resolved, but it is not going to improve or worsen our medical care.

22 https://www.healthaffairs.org/do/10.1377/hblog20190628.873493/full/

And, we have a precedent to reduce out-of-network billing. California's 2017 out-of-network billing law decreased out-of-network billing by 17% by capping insurance rates for out-of-network providers.[23] New York did the same with emergency department out-of-network billing in 2015. This is a known issue with a known resolution that is just now coming to the American media's attention. It will force health systems to rethink staffing and insurance companies to reconsider reimbursement for certain provider groups, but it won't affect patient care.

## Limited access and unfairly skewed towards the wealthy

America has the best medical care in the world; it is just not getting to everyone.

Going back to that last headline in the list above: *Why the US Still Trails Many Wealthy Nations in Access to Care*. Here is what we are arguing: America has the best medical care in the world; it is just not getting to everyone. It is primarily a problem of access and education.

We just have to look a little bit closer.

A 2019 survey of 2,000 Americans across geographies and income levels conducted by The Commonwealth Fund, The New York Times, and the Harvard T.H. Chan School of Public Health found:

- 79% of Americans are very or somewhat satisfied with the quality of their healthcare
- 81% of Americans believe some Americans are not treated as well as others in our healthcare system
- 79% of Americans believe the equal treatment in healthcare for all Americans is very important[24]

Great medical care, which is underreported and underappreciated, is not getting to everyone in America. And, we all agree that we need to talk about it.

So, let's talk about it.

Let's just start by changing the dialogue and by offering a few counter facts on what is working that do not get mentioned often because, well, they just don't fit the "we are broken" narrative.

America has four of the top ten hospitals in the world,[25] based on recommendations from medical experts, results from patient surveys, and medical KPIs. No other country has more than one hospital in the top ten.[26]

This is not a surprise. Many of the best 100 hospitals in the world from that same Newsweek and Statista Inc. report reside across the street from my office, along York Avenue, Manhattan. I can see them from my window: Weill Cornell Medical Center, NYU Langone Medical Center, and New York–Presbyterian Hospital.

And, how about Cedars-Sinai Medical Center, Mayo Clinic, Johns Hopkins Health System? These hospital and research behemoths are here, in the United States. Twenty cities in America are ranked in the top 100 "hospital" cities in the world based on access to care, outcomes, and treatment efficiency.[27] We have pockets of world-class care, where subsets of the American population are treated to top-notch healthcare. When healthcare finally goes global, and it will, who will lead the charge? Is there any doubt?

If healthcare is broken in America, then it is only broken in regions of America. More cities in America should be in this list, but the quality of care being conducted in America is amongst the best.

America has 28 of the top 50 medical schools in the world,[28] ranked based on output of clinical research and quality of medical education.

---

23 https://www.brookings.edu/blog/usc-brookings-schaeffer-on-health-policy/2019/09/26/california-saw-reduction-in-out-of-network-care-from-affected-specialties-after-2017-surprise-billing-law/

24 https://cdn1.sph.harvard.edu/wp-content/uploads/sites/94/2019/10/CMWF-NYT-Harvard_Final-Report_Oct2019.pdf

25 https://www.newsweek.com/best-hospitals-2019

26 https://d.newsweek.com/en/file/459529/world-best-hospital.pdf

27 https://www.medbelle.com/best-hospital-cities-usa

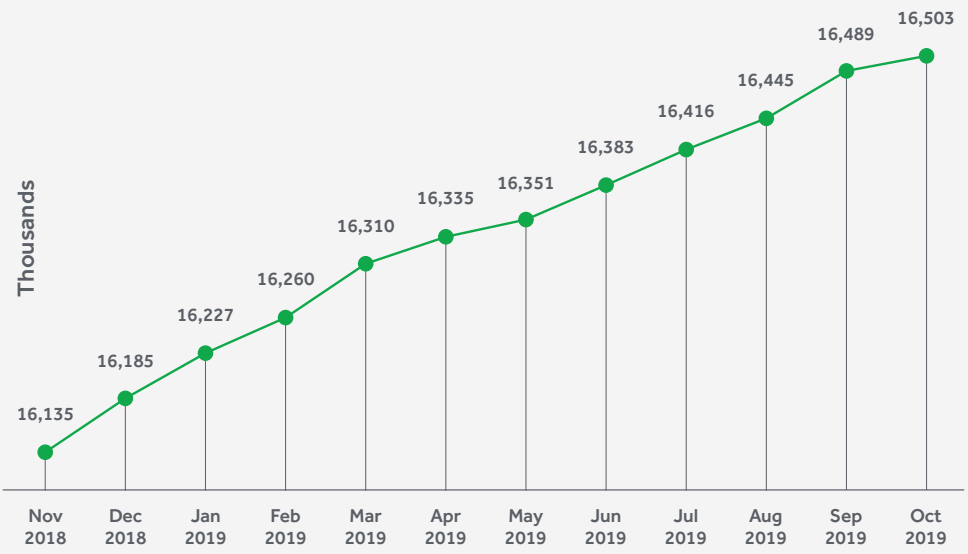
28 https://www.usnews.com/education/best-global-universities/search?region=&subject=clinical-medicine&name=

America has over 1 million physicians and millions of physician assistants, nurses, and technicians. Through America's lengthy and arduous clinical education system, we have produced the best surgeons and caretakers in the world. In fact, 58% of Americans have a "great deal" of public trust in nurses. Only 6% trust the federal government.[29]

And, behind our clinical staff, augmented by a steady flow of immigrant doctors, are many millions of support staff. American employment, by magnitude and growth rate, is by any measure a critical component of the U.S. economy. And, it will continue to be. Medical school is expensive and salaries for physicians are high in the United States relative to the rest of the world.[30]

**Nation's Largest Industry: Healthcare Employment Continues Upward**

*Source: Bureau of Labor Statistics*



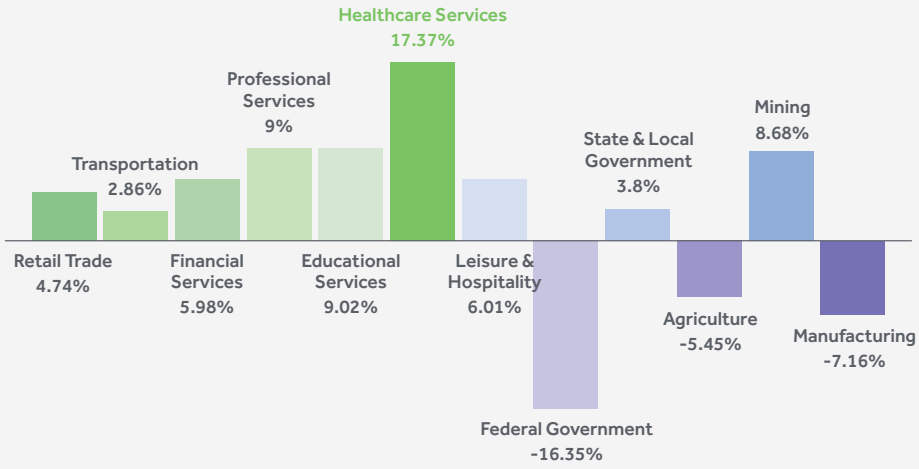

But, when an athlete overseas breaks his or her ankle where do they go? They likely come to the Hospital for Special Surgery here in the United States. It is not just our facilities; it is the quality of our clinical staff filling them. We, Americans, have made an investment in the people that fill our hospitals to provide the care.

And, we should be appreciative of the covenant that all healthcare professionals have made to take care of us all, no matter our age, wealth, condition, time of day or night, location, state of mind, and personal risk we present to our caregivers.

29 https://cdn1.sph.harvard.edu/wp-content/uploads/sites/94/2019/10/CMWF-NYT-Harvard_Final-Report_Oct2019.pdf
30 https://www.medscape.com/slideshow/2019-international-compensation-report-6011814#8

## Employment Increase Among Various Industries

Forecasted Percent Change in Employment 2014-2024




America has the highest "Global Innovation" score for science and technology, computed based on density of research universities, filed patents, and cited research.[31]

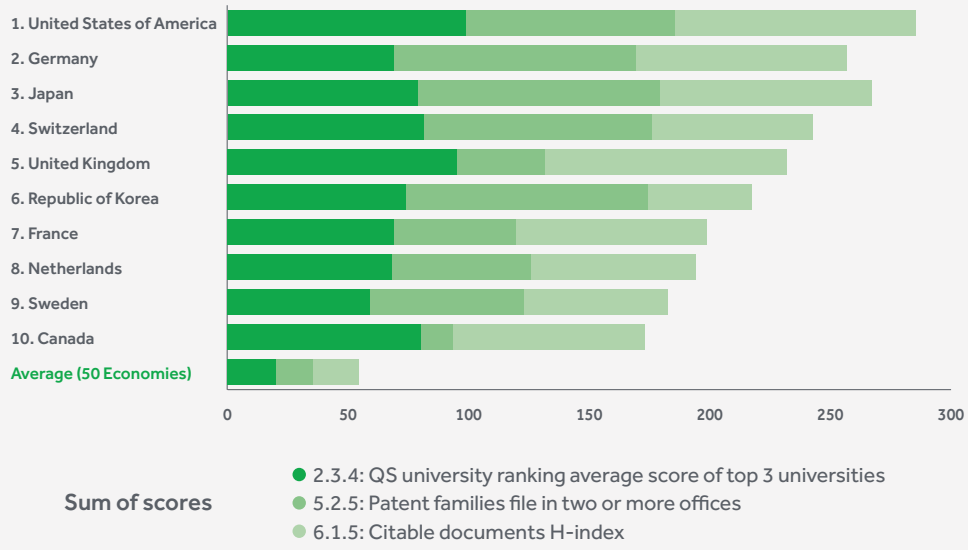
Creating healthy lives through medical innovation requires more investment in innovation and increased diffusion efforts. Ignoring the research and development spent in the pharmaceutical industry to develop transformative medicine, America still spends billions of private and public dollars on funding clinical research trials, biomedical engineering proof of concepts, and the discovery of new indications for existing medications.

And, we benefit from having that clustered innovation at our doorsteps.

## Metrics for Quality of Innovation, 2019

*Source: Global Innovation Index Database, Cornell, INSEAD, and WIPO, 2019*

*Notes: Numbers to the left of the economy name are the innovation quality rank. Economies are classified by income according to the World Bank Income Group Classification (July 2018). Upper- and lower middle-income categories are grouped together as middle-income economies.*




31 https://www.globalinnovationindex.org/userfiles/file/reportpdf/GII2019-keyfinding-E-Web3.pdf

We should protect all that works and focus on what needs improving.

Our whole healthcare industry – every nurse, every technician, every janitor, and, yes, every physician and every healthcare manager – is painfully insulted and put at risk (of burnout and quitting) every time we allow our journalists and politicians to use the phrase healthcare is "broken" in America.

We should protect all that works and focus on what needs improving using sensible, mature, composed language along the way. And yet, we allow the theatrics and the histrionics because we do not have an easy forum in which to push back – where can we go to respond with a loud: "No it isn't. Actually, you don't have your facts straight. We are in pretty good shape and more importantly getting better fast."

So, how are we getting better fast? How are we taking our world-class facilities, people, and cutting-edge medicine to all of our citizens? The solutions will likely include new developments in technology such as telemedicine, smart health related patient apps, a better understanding and implementation of performance based integrated care (value-based care), more preventative continuous care vs. expensive episodic or highly intrusive care, increased insurance coverage, and better resource allocation all the way around. And, if you look close enough, you can see our nation's entrepreneurs working with and not against the American health system, bringing these listed and many more changes to the forefront.

Our American hospitals, clinical staff, and scientists are helping improve an unbroken system that already offers the best healthcare available. So, let's be proud and thankful of the medicine that we have here in America and work together to make it better – more affordable, more accessible. We at SCALE are trying to do our small part, and look forward to bringing the industry forward, together.